

Office of the State Auditor

Division of State Audit

North Dakota Department of Veterans Affairs Fargo, North Dakota

Audit Report for the
Two-Year Period Ended June 30, 2006
Client Code 32100

Robert R. Peterson
State Auditor



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Transmittal Letter

May 7, 2007

The Honorable John Hoeven, Governor

Members of the North Dakota Legislative Assembly

Bob Hanson, Commissioner, North Dakota Department of Veterans Affairs

We are pleased to submit this audit of the North Dakota Department of Veterans Affairs for the two-year period ended June 30, 2006. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Robyn Hoffmann, CPA. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to Commissioner Hanson and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

Executive Summary

INTRODUCTION

The North Dakota Department of Veterans Affairs was created under Section 37, Article 18 of the North Dakota Century Code. It is the function of the North Dakota Department of Veterans Affairs to coordinate agencies or instrumentalities of the state set up to render service and benefits to returning veterans; to have charge of and implement programs and benefits authorized by statute; to assist or represent veterans or their widows, administrators, executors, guardians, or heirs, in processing claims; to advise and assist veterans in taking advantage of the provisions of the Servicemen's Readjustment Act of 1944, or any similar or related measures afforded by the federal government; to assist, supervise, advise, and direct the work of county service officers; to assist county service officers in the formation of county service to veterans' committees and to outline, assist, and direct the activities of such committees.

North Dakota Century Code Chapter 37-18.1, created an Administrative Committee on Veterans' Affairs, which is responsible for the organization, policy and general administration of all veterans' affairs in the state of North Dakota.

The North Dakota Department of Veterans Affairs is also authorized, under North Dakota Century Code sections 37-14-03.3 and 37-14-04, to maintain a permanent revolving fund for the purpose of making loans to qualified veterans.

RESPONSES TO LAFRC AUDIT QUESTIONS

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

1. What type of opinion was issued on the financial statements?

Financial statements were not prepared by the North Dakota Department of Veterans Affairs in accordance with generally accepted accounting standards so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Other than our prior recommendation not implemented at page 13, the North Dakota Department of Veterans Affairs was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

3. *Was internal control adequate and functioning effectively?*

Yes.

4. *Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

No. For additional commentary see the prior recommendations not implemented at page 13.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

No, a management letter was not issued.

LAFRC AUDIT COMMUNICATIONS

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The North Dakota Department of Veterans Affairs' financial statements include accounting estimates for the allowance for uncollectible receivables. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole. We noted problems with the estimate which is reported on the loans receivable closing packages. See the prior recommendations not implemented on page 13.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), and Nortrige Loan System are high-risk information technology systems critical to the North Dakota Department of Veterans Affairs.

Background Information

The mission of the North Dakota Department of Veterans Affairs is to assist all veterans of North Dakota and their dependents in obtaining all benefits to which they are entitled, both federal and state either by direct contact or through the assistance of the County and Tribal Veterans Service Officers. Additionally, and due to the aging of the World War II and Korean Conflict veteran population, the Department has made it possible to transport veterans to the VA Hospital in Fargo and to three community-based outpatient clinics: Grafton, Minot, and Bismarck. We also assist in basic needs such as dental, hearing, etc. with the use of the Post War Trust Fund earnings.

Fifty-three counties in the state of North Dakota at the present time have appointed someone as a recognized County Service Officer. These County Service Officers are under the supervision of the State Department of Veterans' Affairs.

The Claims Division assists County Veterans Service Officers in their work developing claims for veterans and their dependents that are entitled to Veterans Administration benefits. Training sessions are held throughout the year to keep County Veterans Service Officers informed of changing federal and state laws and regulations.

The Veterans Aid Loan Program is designed to give temporary emergency financial assistance to qualified veterans or their widow/ers.

The Emergency Hardship Grant gives aid to qualified veterans, their spouses, or widow/ers in need of dental work, eyeglasses, hearing aids, transportation for medical treatment, or any other medical need approved by the Commissioner of Veterans Affairs.

The Transportation Program currently has five vans bringing veterans from different areas of the state to medical appointments at the Fargo Veterans Administration Medical Facility and the Miles City Veterans Administration Medical Facility.

The Department employs five people in the Fargo office and one person in the Bismarck branch office. They are also provided office space in the Veterans Administration Regional Office in Fargo for the claims personnel. This office is utilized on a daily basis.

More information about the agency can be obtained from the North Dakota Department of Veterans Affairs' home page at: <http://www.state.nd.us/veterans/>.

Audit Objectives, Scope, And Methodology

Audit Objectives

The objectives of this audit of the North Dakota Department of Veterans Affairs for the two-year period ended June 30, 2006 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the most important areas of the North Dakota Department of Veterans Affairs' operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the North Dakota Department of Veterans Affairs and are they in compliance with these laws?
3. Are there areas of the North Dakota Department of Veterans Affairs' operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the North Dakota Department of Veterans Affairs for the two-year period ended June 30, 2006 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

Audit Methodology

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures for expenditures and receipts.
- Tested samples of expenditures, journal vouchers, and correcting entries.
- Reviewed prior year audit workpapers.
- Interviewed appropriate agency personnel.
- Reviewed North Dakota Department of Veterans Affairs written plans and applicable manuals.
- Observed North Dakota Department of Veterans Affairs' processes and procedures.
- Reviewed North Dakota Century Code chapters 37-14, 37-18, 37-18.1, and the 2003 and 2005 Session Laws.
- Searched for recent studies or reports relating to the North Dakota Department of Veterans Affairs.

Discussion And Analysis

The accompanying financial statements have been prepared to present the North Dakota Department of Veterans Affairs' revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the two-year period June 30, 2006, operations of the North Dakota Department of Veterans Affairs were primarily supported by appropriations from the state's general fund and Veterans Affairs special fund. Additionally, the Administrative Committee on Veterans Affairs has a continuing appropriation for the Veterans Post War Trust Fund earnings.

FINANCIAL SUMMARY

Revenues consisted primarily of interest and investment income and loan related revenue. These all remained fairly constant for the North Dakota Department of Veterans Affairs, decreasing only slightly. Total revenues were \$172,678 for the year ended June 30, 2006 as compared to \$196,094 for the year ended June 30, 2005.

Total expenditures for the North Dakota Department of Veterans Affairs were \$528,635 for the year ended June 30, 2006 as compared to \$604,645 for the prior year. The decrease in total expenditures for fiscal year 2006 is due to the purchase of two vans in fiscal year 2005 for \$33,000. Also in fiscal year 2005, there were transfers to the North Dakota Veteran's Home for \$10,000 and to Job Service North Dakota for \$20,000. There were no transfers in fiscal year 2006. All other expenditures remained fairly constant.

ANALYSIS OF SIGNIFICANT CHANGES IN OPERATIONS

There were no significant changes in operations.

ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENDITURES

There were no significant variances between final budgeted and actual amounts.

Financial Statements

STATEMENT OF REVENUES AND EXPENDITURES

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Miscellaneous General Revenue	\$ 151,368	\$ 175,439
Loan Related Revenues	8,230	18,359
Interest and Investment Earnings	4,349	1,879
Contributions and Private Grants	3,983	
Sale of Capital Assets		3,500
Program Income	(1,985)	(3,083)
Transfers In	6,733	
Total Revenues and Other Sources	<u>\$ 172,678</u>	<u>\$ 196,094</u>

Expenses and Other Uses:

Salaries and Benefits	\$ 240,085	\$ 225,669
Grants, Benefits, and Claims	201,449	203,353
Rentals/Leases - Building/Land	24,560	20,940
Travel	21,535	31,290
Supplies - IT Software	12,577	1,412
IT-Communications	7,055	6,989
Rentals/Leases-Equipment and Other	3,526	3,501
IT - Data Processing	2,841	1,684
Food and Clothing	2,661	
Office Supplies	3,521	2,870
Postage	2,339	3,547
Professional Development	1,980	1,899
Insurance	817	1,392
Printing	762	3,688
Repairs	733	974
Operating Fees and Services	534	1,402
Fees - Professional Services	488	21,866
Supply/Material-Professional	365	339
Building, Grounds, Vehicle Supply	315	92
IT Equip under \$5,000	240	6,003
Miscellaneous Supplies	174	
Office Equipment and Furniture-Under	78	2,387
Motor Vehicles		33,000
Utilities		348
Transfers Out		30,000
Total Expenses and Other Uses	<u>\$ 528,635</u>	<u>\$ 604,645</u>

STATEMENT OF APPROPRIATIONS

For The Biennium Ended June 30, 2005

	Original Appropriation	Adjustments	FY 2004 Expenditures	FY 2005 Expenditures	Unexpended Appropriations
Expenditures by Line Item:					
Vets Affairs Administration	\$ 524,292	\$ 22,245	\$ 259,444	\$ 282,340	\$ 4,753
Totals	\$ 524,292	\$ 22,245	\$ 259,444	\$ 282,340	\$ 4,753
Expenditures by Source:					
General Fund	\$ 480,798	\$ 22,245	\$ 242,305	\$ 260,566	\$ 172
Other Funds	43,494		17,139	21,774	4,581
Totals	\$ 524,292	\$ 22,245	\$ 259,444	\$ 282,340	\$ 4,753

For The Year Ended June 30, 2006

	Original Appropriation	Adjustments	FY 2006 Expenditures	Unexpended Appropriations
Expenditures by Line Item:				
Vets Affairs Administration	\$ 653,668		\$ 309,633	\$ 344,035
Totals	\$ 653,668		\$ 309,633	\$ 344,035
Expenditures by Source:				
General Fund	\$ 653,668		\$ 309,633	\$ 344,035
Totals	\$ 653,668		\$ 309,633	\$ 344,035

Appropriation Adjustments:

For the biennium ended June 30, 2005, \$22,245 is an emergency commission approved transfer from the state contingency fund for costs associated with a strategic plan mandated by Senate Bill 2299, section 3, subsection 4 (2003 session laws, chapter 301).

Expenditures Without Appropriations Of Specific Amounts:

The Veterans Post War Trust fund has a continuing appropriation authorized by NDCC 37-14-14 (fund 410). This fund had expenditures for fiscal year 2006 and fiscal year 2005 of \$87,090 and \$183,941, respectively.

Internal Control

In our audit for the two-year period ended June 30, 2006, we identified the following areas of the North Dakota Department of Veterans Affairs internal control as being the most important:

Internal Controls Subjected To Testing

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the computer-based Nortridge Loan System.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We concluded internal control was adequate. Our consideration of internal control would not necessarily disclose all matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements that would be material may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control and its operation that we consider to be material weaknesses.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2006, we identified and tested North Dakota Department of Veterans Affairs compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

Legislative Intent Subjected To Testing

- The Veterans Aid Fund is used for the purpose of making loans, collecting loans, and paying administrative expenses (NDCC 37-14-03.3).
- Loans are limited to \$5,000 with interest rates not exceeding 10% (NDCC 37-14-06, 07).
- Loan repayment period does not exceed four years and the interest rate does not exceed 10%. (NDCC 37-14-07).
- The subcommittee of the Department of Veterans Affairs conducted an annual performance evaluation of the commissioner and created and implemented a strategic plan. (NDCC 37-18.1-03(5)).
- Committee members are reimbursed for travel expenses and meals and lodging at the same rate as other state employees. (NDCC 37-18.1-04).
- Compliance with appropriations and related transfers (2005 and 2007 North Dakota Session Laws chapters 7 and 35, respectively).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

Operations

This audit did not identify areas of North Dakota Department of Veterans Affairs operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

Prior Recommendations Not Implemented

Prior recommendations have been implemented with the exception of the following:

Background

In prior audits, the Lease Summary, Fixed Assets Checklist, and Loan Receivables Summary closing packages were not completed properly.

Recommendation

We recommend all closing packages to be prepared in accordance with OMB policy and generally accepted accounting principles.

Status

Not implemented. Testing during the current audit indicated all closing packages to be properly completed except for the Loan Receivable Summary.